

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

**United Cities Gas Company**

Proposed general increase in  
gas rates

ILLINOIS  
COMMERCE COMMISSION

SEP 19 2 00 PM '00

CHIEF CLERK  
Docket No. 00-0228

**ORDER**

By the Commission:

**I. PROCEDURAL HISTORY**

On February 17, 2000, United Cities Gas Company ("United Cities" or "Company"), a division of Atmos Energy Corporation, filed its Ill. C.C. No. 2, Original Title Sheet, Original Sheet Nos. 1 through 60 and an Original Information Sheet Supplemental to Sheet No. 59, hereinafter referred to as "Filed Rate Schedule Sheets," in which it proposed a general increase in gas rates, to be effective April 2, 2000.

Notice of the filing of the Filed Rate Schedule Sheets was posted in United Cities' business office and published in newspapers of general circulation throughout the Company's Illinois service area in accordance with the requirements of Section 9-201 of the Public Utilities Act ("Act") and the provisions of 83 Ill. Adm. Code 255.

On March 15, 2000, the Commission entered an order suspending the Filed Rate Schedule Sheets to and including July 15, 2000. On July 6, 2000, the Commission resuspended the Filed Rate Schedule Sheets to and including January 15, 2001.

Pursuant to due notice, a pre-hearing conference was held in this matter before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois on April 12, 2000. Thereafter, pursuant to due notice, a hearing was held at the Commission's Springfield offices on September 12, 2000. Appearances were entered by Commission Staff and by counsel on behalf of United Cities. No Petitions to Intervene were filed in this proceeding.

At the hearing on September 12, 2000, the Company presented its direct and rebuttal testimony and exhibits. It called as its witness Mr. Mark Thessin, its Vice President, Rates and Regulatory Affairs, who presented the Company's complete case including testimony regarding Company operations, rate base, operating statements, revenue requirements, rate design, cost of service study and overall cost of capital for the Company's Illinois operations. In Mr. Thessin's Rebuttal Testimony, he stated that the Company and the Commission Staff had resolved all issues of revenue requirement and rate design in this case.

At the hearing on September 12, 2000, the Commission Staff presented its direct and rebuttal testimony. It called as witnesses: Ms. Mary Everson, an Accountant in the

Accounting Department of the Financial Analysis Division, who presented testimony showing Staff's adjusted operating statement and rate base and adjustments to the operating statement and rate base of the Company; Mr. Thomas Smith, Accounting Supervisor in the Accounting Department of the Financial Analysis Division, who presented testimony proposing certain adjustments to the Company's operating statement and rate base; Ms. Burma Jones, an Accountant in the Accounting Department of the Financial Analysis Division, who presented testimony proposing certain adjustments to the Company's operating statement and rate base; Ms. Janis Freetly, a Financial Analyst in the Finance Department of the Financial Analysis Division, who presented testimony as to the Company's capital structure, cost of capital and rate of return on rate base; Ms. Terrie McDonald, an Economic Analyst in the Rate Department of the Financial Analysis Division, who presented testimony regarding cost of service and rate design; and Mr. Steven Cianfarini, a Senior Energy Engineer in the Gas Section of the Energy Division, who presented testimony addressing certain technical issues regarding the Company's tariffs and rate base. Staff Witnesses Smith and McDonald addressed the resolution of all issues in this case between the Commission Staff and the Company.

At the conclusion of the hearing on September 12, 2000, the record was marked "Heard and Taken."

United Cities filed a draft Order on September 19, 2000, to which Staff had no objections.

## **II. NATURE OF UNITED CITIES' OPERATIONS**

United Cities, as a division of Atmos Energy Corporation, provides natural gas service to approximately 298,000 customers in Illinois and portions of six other states including Iowa, Missouri, Tennessee, Virginia, Georgia and South Carolina. Atmos Energy Corporation, based in Dallas, Texas, provides natural gas to more than one million customers in 13 states through its operating divisions: Energas Company, Greeley Gas Company, Trans Louisiana Gas Company, United Cities Gas Company, Western Kentucky Gas Company, and United Cities Propane Gas.

The Company is headquartered in Franklin, Tennessee and provides natural gas service to approximately 25,000 customers in Illinois from four operating centers. These centers, in Virden, Vandalia, Harrisburg and Metropolis, serve customers in Alma, Bluff City, Brookport, Carrier Mills, Cowden, Eldorado, Farmersville, Galatia, Girard, Harrisburg, Huey, Iuka, Joppa, Kinmundy, Metropolis, Middletown, Muddy, Naylor, Neelyville, New Holland, Quinlin, Raleigh, Salem, Thayer, Vandalia, Virden, Waggoner, and Xenia.

## **III. LAST RATE INCREASE**

United Cities's last Illinois rate order was entered in Docket No. 96-0618 on June 25, 1997, approximately three years ago. In that proceeding, the Commission approved an increase in Illinois revenues of \$427,671 or 2.09%. The Order authorized

a rate of return on original cost rate base of 9.85%, which incorporated a return on common equity of 10.94%.

#### **IV. UNITED CITIES' REASONS FOR THE PROPOSED RATE INCREASE**

United Cities originally proposed an increase in annual revenues of \$3,155,315 for the Illinois service area. Respondent's Schedule A-1, Page 1 of 14. As stated by Mr. Thessin in UCGC Exhibit 6.0, the Company is accepting the revenue requirement as shown on ICC Staff Exhibit 7.0, Schedule 1.0, which results in an increase in annual revenues of \$1,367,684, in order to resolve this case.

Thomas Blöse, the President of United Cities, explained in testimony the reasons which precipitated the need for the proposed rate increase. (UCGC Exhibit 1.0. He stated that, since the Company's last rate case in Docket No. 96-0618, it has made substantial investment in the areas of its Illinois service territory that have been newly acquired by the Company. In addition, the Company has made substantial investments in technology-based service and productivity improvements which are essential for operation of an efficient and high quality gas distribution system to meet future customer needs.

#### **V. TEST YEAR**

The Company's rate increase request is based on a proforma historical test year, which ended September 30, 1999, with adjustments for purported known and measurable changes. The Staff accepted the Company's use of this proforma historical test year.

The Commission concludes that the test year, consisting of the 12 months ended September 30, 1999, with proforma adjustments calculated in a manner consistent with the criteria set forth in Section 285.150 of 83 Ill. Adm. Code 285, is appropriate for the purposes of this proceeding.

#### **VI. ORIGINAL COST RATE BASE**

United Cities' proposed rate base was addressed in the Company's filing and in the testimony and schedules presented by Commission Staff witnesses Mary Everson, Thomas Smith, Burma Jones and Steven Cianfarini. In its testimony, the Company presented detailed evidence regarding its original cost rate base based on balances and costs for the 12 months ending September 30, 1999, with certain proforma adjustments. Staff witnesses proposed certain adjustments to the Company's rate base. The Staff adjustments to rate base are reflected in ICC Staff Exhibit 7.0, Schedule 4. Attached As Appendices C and D.

In Direct Testimony, Staff witness Everson proposed the following adjustments to rate base: adjustments to Cash Working Capital for adjustments to operating expense items, allocation factor-rate base to correct an allocation factor, and quantified adjustments to plant in service to remove cost of retired LP plant and gas stored

underground to correct an incorrect allocation of storage gas amounts. ICC Staff Exhibit 1.0. These adjustments were also proposed in Rebuttal Testimony Exhibit 7.0 except that the Cash Working Capital adjustment was modified to reflect operating expenses as proposed by Staff in its rebuttal testimony.

Staff witness Jones proposed the following adjustments to rate base: gas stored underground - provide a thirteen month average balance and remove inventory not available to Illinois customers; unamortized rate case expense - remove from rate base; unamortized Monarch Management Audit expense - remove from rate base; materials and supplies - provide a thirteen month average balance and remove materials and supplies associated with non-regulated operations; customer advances for construction - remove an allocation for advances outside of Illinois; customer deposits - correct Company's failure to recognize a normal level of customer deposits; budget billing advances - deduct from rate base. ICC Staff Exhibit 9.0.

Staff's adjustments were accepted by the Company in the resolution of this Docket, as presented on ICC Staff Exhibit 7.0, Schedule 3.0 through Schedule 4.0, Page 2 of 2. Appendices C and D.

Based on the evidence, the Commission finds that the original cost rate base as shown in ICC Staff Exhibit 7.0, Schedule 3.0, Appendices C and D, is reasonable and should be accepted. Giving effect to the above finding, the Commission concludes that The Company's original cost rate base for the test year ended September 30, 1999 is as follows:

Utility Plant in Service	\$ 38,189,688
Accumulated Depreciation	<u>(17,399,227)</u>
Net Plant	20,790,461
Additions to Rate Base:	
Construction Work in Progress	2,135,551
Gas Stored Underground	2,853,133
Gas Stored Underground-Cushion Gas	587,316
Consulting & Non-Compete Agreement	143,688
Materials and Supplies	388,702
Working Capital Allowance	533,221
Deductions from Rate Base:	
Customer Advances for Construction	(22,560)
Customer Deposits	(99,277)
Accumulated Deferred Income Taxes	(2,308,580)
Budget Billing Advances	<u>(437,726)</u>
Rate Base	<u>\$ 24,563,929</u>

## VII. OPERATING REVENUES, EXPENSES AND INCOME

In its direct testimony and filing, United Cities presented detailed evidence regarding its operating revenues, expenses and income for the test year ended September 30, 1999. In the testimony and schedules presented by ICC Staff witnesses Mary Everson, Thomas Smith and Burma Jones, several adjustments to the Company's operating revenues, expenses and income were proposed.

Staff witness Everson, in Direct Testimony, made the following adjustments to operations expense: allocation factor - operating statement to correct an incorrect allocation factor, cost of gas to remove cost of purchased gas recovered through PGA, outside service contract to remove cost of a contract which does not benefit ratepayers, outside legal expense for cases not related to Illinois operations, depreciation expense to correct an error in the Company's filing, ICC Staff Exhibit 1.0. These adjustments were also proposed in Rebuttal Testimony, ICC Staff Exhibit 7.0, except that Ms. Everson proposed an adjustment to Gas Research Institute ("GRI") cost to reflect a change in the method by which GRI bills utilities.

Staff witness Jones in her Direct Testimony, proposed the following adjustments to operations expense: rate case expense amortization - adjust expense to reflect the unamortized balance of prior rate case expense when rates from this proceeding are expected to be in effect and to recognize a change in the Company's estimate of current rate case expense; Monarch Management Audit expense amortization - correct coding errors by the Company and reduce expense to reflect the unamortized balance when rates from this proceeding are expected to be in effect; memberships and dues - remove allocations for community organizations outside of Illinois; interest on customer deposits - coordinate with change to customer deposits; sales promotion expense - remove from test year; customer service expense - correct coding errors. ICC Staff Exhibit 3.0. In her Rebuttal Testimony, Ms. Jones reiterated these adjustments except that rate case expense was modified to reflect actual invoiced expense, and sales promotion expense was modified to reflect the nature of certain expenses included in this category. ICC Staff Exhibit 9.0.

Staff witness Smith, in his Direct Testimony, proposed the following adjustments to operations expense: merger cost, to eliminate non-operating cost from revenue requirement; income tax, correct state tax rate; income tax, to reflect permanent book tax differences; pension cost, reverse Company adjustment to increase test year expense from negative to zero; forfeited discounts, to correct Company's failure to recognize a normal level of forfeited discounts; leases, to recognize a normal level of rent income; gas revenues, to eliminate the revenues used to recover gas costs from test year operating income; retired directors, to eliminate non-recurring cost; shared services, to eliminate non-recurring cost; payroll, to eliminate the Company's proposed adjustment because it is not known and measurable; benefits, to coordinate benefits with payroll; benefits, to reflect known and measurable conditions; and uncollectible expense - to reflect jurisdictional revenues. ICC Staff Exhibit 2.0. In Rebuttal Testimony, Mr. Smith proposed modifications to income tax expense to reflect proper allocation factors and to reflect the fact that certain expense items can not be deducted for income tax purposes. Other positions as reflected in direct testimony were retained

in Mr. Smith's Rebuttal Testimony. ICC Staff Exhibit 8.0.

As part of the resolution of this Docket, the Company has accepted the operating revenues, expenses and income as presented on ICC Staff Exhibit 7.0, Schedule 1.0 through Schedule 4.0, Attached as Appendices A and B.

Based on all of the evidence of record in this proceeding, the Commission finds that the adjustments to the operating income statement as presented in ICC Staff Exhibit 7.0, Schedule 2.0, attached as Appendices A and B, are reasonable and should be adopted for ratemaking purposes in this proceeding. Upon giving effect to these adjustments and the rate of return on original cost rate base of 9.18% that is hereafter allowed in this Order, the Commission concludes that for purposes of this proceeding, United Cities' operating income statement for the test year ended September 30, 1999, at approved rates, is as follows:

Base Revenues	\$9,224,540
Other Revenues	<u>79,373</u>
Total Operating Revenues	9,303,913
Uncollectible Accounts	242,864
Production	7
Storage	591
Transmission	2,356
Distribution	1,861,245
Customer Accounts	595,567
Customer Service	71,045
Sales Promotion	9,061
Administration and General	1,720,435
Interest on Customer Deposits	5,460
Depreciation and Amortization	1,746,460
Taxes Other than Income	<u>217,630</u>
Total Operating Expenses before Income Taxes	6,472,721
State Income Tax	104,145
Federal Income Tax	<u>471,219</u>
Total Operating Expenses	<u>7,048,085</u>
Net Operating Income	<u>\$2,255,828</u>

The above operating income statement reflects the rate increase of \$1,367,684 that is granted by this Order.

#### **VIII. CAPITAL STRUCTURE, COST OF CAPITAL AND RATE OF RETURN**

The Company presented evidence regarding its capital structure and cost of capital in the direct testimony of Donald A. Murry, Professor of Economics at the University of Oklahoma. UCGC Exhibit 5.0. The Staff presented evidence on these matters in the direct testimony of Janis Freely. ICC Staff Exhibit 4.0. Each of these witnesses presented extensive analyses of the Company's capital structure and cost of capital.

The Company and the Staff reached a settlement on the method of presenting the Company's capital structure and cost of capital in the Atmos Energy Corporation Universal Shelf Registration Docket No. 99-0687. The Order in that Docket reads as follows:

"For its current rate case, ICC Docket No. 00-0228, Atmos will agree to use an imputed capital structure consisting of 67% total debt and 33% common equity. Atmos will agree to a cost of equity of 11.56%, as calculated by Staff. The overall cost of capital is 9.18%, as calculated by the Staff." (Page 2, Order)

Based on the Order in Docket No. 99-0687 and the evidence contained in the expert testimony in this proceeding, the Commission finds that the capital structure and the cost of capital, including a cost of equity of 11.56% and an overall cost of capital of 9.18%, are supported by the evidence, are reasonable, and should be utilized in this proceeding. Accordingly, the Commission concludes that the fair rate of return on its common equity which The Company should be authorized to earn is 11.56%. United Cities capital structure and overall cost of capital approved herein are as follows:

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Short Term Debt	15.28%	6.94%	1.061%
Long Term Debt	<u>51.72%</u>	8.33%	<u>4.31%</u>
Total Debt	67.00%		5.37%
Common Equity	<u>33.00%</u>	11.56%	<u>3.81%</u>
Total Capital	100.00		9.18%

The authorized return on equity of 11.56% will provide a return on original cost rate base of 9.18% under the capital structure herein approved. This rate of return will provide net operating income of \$2,255,828 for United Cities. To earn this net operating income, a rate increase of \$1,367,684 is required.

## **IX. COST OF SERVICE AND RATE DESIGN**

Both the Company, through the testimony of Daniel Ives, and the Staff, through the testimony of Terrie McDonald, presented cost of service studies. UCGC Exhibit 3.0,

Schedule 1 and ICC Staff Exhibit 5.0, Schedule 1.0. The Staff's cost of service study utilized the same basic methodologies which have been accepted by this Commission in the past. These cost of service studies included the same weather normalization techniques for sales and transport volumes.

The rate design for the various customer classes were discussed by the Company in the direct testimony of Daniel Ives, and Mark Thessin's rebuttal testimony. UGCG Exhibit 3.0 and Exhibit 6.0. The Staff's rate design proposals were addressed by Terrie McDonald in both direct and rebuttal testimony. ICC Staff Exhibit 5.0, Schedules 2.0 through 7.0 and ICC Staff Exhibit 10.0, Schedule 1.0. The rate design testimony includes discussions regarding elimination of Schedule 180 (Economic Development Gas Service), consolidation of Schedule 193 (Large Tonnage Air Conditioning Gas Service) with Schedule 192 (Cogeneration, Compressed Natural Gas, Prime Movers, Fuel Cell Service) and re-opening Schedule 150 (Optional Gas Service) to new customers. The Company and Staff have come to an agreement on the following rate design components for each customer class Schedule:

<u>Schedule and Class Designation</u>	<u>Monthly Facilities Charge</u>	<u>Commodity Charge per CCF</u>
Residential Gas Service, Schedule 110: All Zones	\$ 9.90	\$0.1939
Small Commercial and Small Industrial Gas Service, Schedule 120: All Zones	\$ 25.00	\$0.1521
Large Commercial and Large Industrial Gas Service, Schedule 130: All Zones	\$100.00	\$0.1415
Optional Gas Service, Schedule 150: All Zones	\$100.00	\$0.0499
Cogeneration, Compressed Natural Gas, Prime Movers, Fuel Cell Service, Large Tonnage Air Conditioning, Schedule 192: All Zones	\$100.00	\$0.0726

Based on the evidence, the Commission finds that the cost of service studies methodologies and rate design principles as embodied in the charges for the various customer class Schedules, as shown above and agreed to by the parties, are fully



supported by the evidence, are reasonable, and should be adopted. The Commission further finds that the rate Schedules will produce the revenue requirement and operating income for United Cities found to be reasonable in this Order. Accordingly, the Commission finds that the rate Schedules are just and reasonable and should be approved, to become effective three days after filing.

#### **X. SERVICE REGULATION AND OTHER ISSUES**

The Company and Staff agree that the NSF check charge as currently presented on Ill. C.C. No. 1, Original Sheet No. 39 shall remain at \$10.00.

The Company and Staff agree that there should be no separate meter and meter connection fee.

The Company and Staff agree that the Company should be allowed to read its meters on a bi-monthly basis and that the following language should be included at the end of Paragraph 6.1 of the Company's Service Regulations:

"All meters will be read at intervals of approximately 60 days."

The Company and Staff agree that the new Paragraph 6.3 in the Company's Service Regulations regarding re-reading charges should state:

"If at any time the customer questions the accuracy of the meter reading, the customer can request the Company to read the meter. After such re-read, if the original meter reading was accurate, within 5%, the customer shall be warned that they could be charged \$35.00 to compensate the Company for the expense of conducting future readings if the customer requests re-reads which do not result in an adjusted bill more than 3 times in a 12 month period. The Company shall inform the customer of the charge prior to re-reading the meter the 4th time in one 12 month period. Should the original meter reading be in error, over 5% high, the customer shall not be charged the fee and the appropriate billing adjustments shall be made.

However, if the customer habitually requests (more than 3 times in a 12 month period) a meter re-read which does not result in an adjusted bill, then the customer shall be charged the \$35.00 fee."

The Company and Staff agree that language should be added at the end of Paragraph (1)(d), Section d of the Company's Service Regulations that reads, "with the exception of any charges related to GRI contributions." This change reflects the offset to the inclusion of GRI contributions in the Company's base revenues.

The Company and Staff agree that it is in the Company's and Illinois customers' best interests that a depreciation study be performed on the Company's utility plant

impacting Illinois customers prior to the Company's next rate case filing.

The Company and Staff agree that the Company should change its service extension policy to allow the Company to offer 60 feet of service line to customers installing gas space heating equipment and 40 feet of service line to customers installing a gas water heater. In addition, the Company and Staff agree that the Company should change its service extension policy to allow the Company to offer a maximum of 100 feet of service line to non-residential customers with estimated annual consumption of 100 Mcf or less. The agreement regarding service extension policy is based on the economics of new construction costs of service lines.

Based on the evidence, the Commission concludes that setting the NSF check charge at \$10.00, not having a separate meter and meter connection fee, permitting bi-monthly meter readings, the re-read charge language, additional language reflecting the exclusion of GRI costs from the PGA calculation and the agreement by the Company to perform a depreciation study are reasonable and should be approved. In addition, the Commission concludes, based on the evidence, that the changes to the Company's service extension policy are reasonable and should be approved.

The Company and Staff agree that the Company should change current tariff sheets 2, 27, 28, 32, 34, 38 and 47. On those sheets, the Company makes reference to "General Orders." Those references should be changed to the appropriate Administrative Code Parts.

## **XI. FINDINGS AND ORDERING PARAGRAPHS**

The Commission, having given due consideration to the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) United Cities is a corporation organized and existing under and by virtue of the laws of the State of Texas and Commonwealth of Virginia, is duly authorized to conduct business as a foreign corporation within the State of Illinois, is engaged in the business of rendering natural gas service to the public in the State of Illinois, and is a Public Utility as defined by the Illinois Public Utility Act;
- (2) the Commission has jurisdiction of United Cities and the subject matter herein;
- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by the evidence and are hereby adopted as findings of fact;
- (4) for purposes of this proceeding, the test year is a historical proforma test year ending September 30, 1999, such test year is appropriate for purposes of this proceeding;

- (5) for purposes of this proceeding, United Cities original cost rate base is \$24,563,929;
- (6) for purposes of this proceeding, United Cities' revenue requirement is \$9,303,913;
- (7) a just and reasonable rate of return which United Cities should be allowed to earn on its original cost rate base is 9.18%; this rate of return incorporates a reasonable return on common equity of 11.56%;
- (8) the rates of return set forth in Finding (7) hereinabove result in operating revenues of \$9,303,913 for United Cities and net operating income of \$2,255,828; to earn this operating income, an increase in operating revenues of \$1,367,684 or 17.23% is required for United Cities;
- (9) United Cities rates which presently are in effect are insufficient to generate the operating income necessary to permit the Company to earn a just and reasonable return; the Company rates which are presently in effect should be permanently canceled and annulled;
- (10) the proposed rates filed by United Cities would produce a rate of return in excess of that which is fair and reasonable; The Company proposed rates as filed should be permanently canceled and annulled;
- (11) the evidence demonstrates that the proposed rates will produce the revenue requirement, operating income and rate of return on rate base discussed in Findings (6), (7) and (8) above, are designed in accordance with the cost of service and rate design guidelines approved in the prefatory portion of this Order, and are agreed to by the interested parties;
- (12) the rates and charges as proposed are just and reasonable;
- (13) United Cities shall file new tariff sheets setting forth the rates and charges provided for in this Order, within 10 days of the date of this Order, said tariff sheets to be effective for all service rendered on and after three days after filing;
- (14) United Cities shall maintain its NSF check charge at \$10.00; be allowed to read its meters on a bimonthly basis; not have a separate meter and meter connection fee; institute the re-read policy and charge set forth above; exclude GRI costs from its PGA calculation; and perform a depreciation study prior to its next rate case filing. In addition, the changes in the Company's service extension policy are reasonable and should be approved;
- (15) all motion and objections made in this proceeding that remain undisposed

of should be disposed of in a manner consistent with the ultimate conclusions herein.

IT IS THEREFORE ORDERED that the tariffs presently in effect for gas service rendered by United Cities are hereby permanently canceled and annulled effective at such time as the new gas tariff sheets approved herein become effective by virtue of this Order for all service rendered on or after three days after filing.

IT IS FURTHER ORDERED that the proposed tariffs filed as Ill. C.C. No. 2 seeking a general increase in gas rates in United Cities Illinois service area, filed by the Company on February 17, 2000, are hereby permanently canceled and annulled.

IT IS FURTHER ORDERED that the Suspension Order entered on March 15, 2000 and Resuspension Order entered on July 6, 2000, are hereby vacated and set aside in so far as they relate to the Company.

IT IS THEREFORE ORDERED that United Cities is hereby authorized and directed to file new tariff sheets in accordance with the Commission's findings and conclusions herein.

IT IS FURTHER ORDERED that United Cities shall comply with Finding (14) of this Order.

IT IS FURTHER ORDERED that United Cities complete a depreciation study prior to its next rate case filing before this Commission for the utility plant used in the provision of service to its Illinois customers.

IT IS FURTHER ORDERED that any motions or objections in this proceeding that remain undisposed are hereby disposed of in a manner consistent with the ultimate conclusions contained herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

(SIGNED) Richard C. Mathias  
Chairman

(S E A L)

United Cities Gas Company  
Statement of Operating Income with Adjustments  
For the Test Year Ended September 30, 1999  
(In Dollars)

Line No	Description	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1	Base Revenues		\$ 17,730,695	\$ (9,873,839)	\$ 7,856,856	\$ 3,151,323	\$ (4,335)	\$ 11,003,844	\$ (1,779,304)	\$ 9,224,540		
2	Other Revenues		45,576	33,797	79,373	-	-	79,373	-	79,373		
3	Total Operating Revenue		17,776,271	(9,840,042)	7,936,229	3,151,323	(4,335)	11,083,217	(1,779,304)	9,303,913	\$ 1,367,684	17.23%
4												
5	Uncollectible Accounts		233,017	-	233,017	-	22,658	255,675	(12,811)	242,864		
6	Production		9,873,846	(9,873,839)	7	-	-	7	-	7		
7	Storage		591	-	591	-	-	591	-	591		
8	Transmission		2,356	-	2,356	-	-	2,356	-	2,356		
9	Distribution		1,861,245	-	1,861,245	-	-	1,861,245	-	1,861,245		
10	Customer Accounts		595,567	-	595,567	22,690	(22,690)	595,567	-	595,567		
11	Customer Service		70,225	820	71,045	-	-	71,045	-	71,045		
12	Sales Promotion		25,170	(16,109)	9,061	-	-	9,061	-	9,061		
13	Administration and General		2,635,570	(915,135)	1,720,435	-	-	1,720,435	-	1,720,435		
14	Interest on Customer Deposits		3,342	2,118	5,460	-	-	5,460	-	5,460		
15	Depreciation and Amortization		1,776,123	(29,663)	1,746,460	-	-	1,746,460	-	1,746,460		
16	Taxes other than income		217,630	-	217,630	-	-	217,630	-	217,630		
17	Total Operating Expense		17,294,682	(10,831,808)	6,462,874	22,690	(32)	6,485,532	(12,811)	6,472,721		
18	Before Income Taxes											
19												
20	State Income Tax		(37,159)	43,811	6,652	228,390	(4,063)	230,979	(126,834)	104,145		
21	Federal Income Tax		(165,155)	195,254	30,099	1,015,241	(240)	1,045,100	(573,881)	471,219		
22	Deferred Taxes and ITCs Net		-	-	-	-	-	-	-	-		
23	Total Operating Expenses		17,092,366	(10,592,743)	6,499,625	1,266,321	(4,335)	7,761,611	(713,526)	7,048,085		
24												
25	NET OPERATING INCOME		\$ 683,903	\$ 752,701	\$ 1,436,604	\$ 1,885,002	\$ -	\$ 3,321,606	\$ (1,065,778)	\$ 2,255,828		
26	Staff Rate Base									\$ 24,563,929	(1)	
27	Staff Overall Rate of Return											9.18% (2)

(1) Source: Staff Exhibit 1.0, Schedule 3, Page 1, Column (D).  
(2) Source: Staff Exhibit 4.0, Schedule 12.0.  
(3) Source: Column (J), Line 3, divided by Column (D), Line 3.

United Cities Gas Company  
Adjustments to Operating Income  
For the Test Year Ended September 30, 1999  
(in Dollars)

Line No	Description	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1	Base Revenues		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues		-	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue		-	-	-	-	-	-	-	-	-	-
4			-	-	-	-	-	-	-	-	-	-
5	Uncollectible Accounts		-	-	-	-	-	-	-	-	-	-
6	Production		-	-	-	(9,873,839)	-	-	-	-	-	(9,873,839)
7	Storage		-	-	-	-	-	-	-	-	-	-
8	Transmission		-	-	-	-	-	-	-	-	-	-
9	Distribution		-	-	-	-	-	-	-	-	-	-
10	Customer Accounts		-	-	-	-	-	-	-	-	-	-
11	Customer Service		-	-	-	-	-	-	-	-	-	-
12	Sales Promotion		-	-	-	-	-	-	-	-	-	-
13	Administration and General		-	-	-	-	(4,030)	(2,691)	-	(628,427)	-	(635,148)
14	Interest on Customer Deposits		-	-	-	-	-	-	-	-	-	-
15	Depreciation and Amortization		-	(35,310)	(5,029)	-	-	-	10,676	-	-	(29,663)
16	Taxes other than Income		-	-	-	-	-	-	-	-	-	-
17	Total Operating Expense		-	-	-	-	-	-	-	-	-	-
18	Before Income Taxes		-	(35,310)	(5,029)	(9,873,839)	(4,030)	(2,691)	10,676	(628,427)	-	(10,538,650)
19			-	-	-	-	-	-	-	-	-	-
20	State Income Tax		(23,561)	2,535	361	708,942	289	193	(767)	45,121	(3,836)	729,277
21	Federal Income Tax		(106,604)	11,471	1,634	3,207,714	1,309	874	(3,468)	204,157	(20,334)	3,296,753
22	Deferred Taxes and ITCs Net		-	-	-	-	-	-	-	-	-	-
23	Total Operating Expenses		(130,165)	(21,304)	(3,034)	(5,957,183)	(2,432)	(1,624)	6,441	(379,149)	(24,170)	(6,512,620)
24			-	-	-	-	-	-	-	-	-	-
25	NET OPERATING INCOME		\$ 130,165	\$ 21,304	\$ 3,034	\$ 5,957,183	\$ 2,432	\$ 1,624	\$ (6,441)	\$ 379,149	\$ 24,170	\$ 6,512,620

United Cities Gas Company  
Adjustments to Operating Income  
For the Test Year Ended September 30, 1999  
(in Dollars)

Line	No	Description	(A)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)
1		Base Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9,873,839)
2		Other Revenues	-	-	-	-	-	-	-	-	-	-	33,797
3		Total Operating Revenue	-	-	-	24,457	9,340	-	(9,873,839)	-	-	-	(9,840,042)
4													
5		Uncollectible Accounts	-	-	-	-	-	-	-	-	-	-	-
6		Production	(9,873,839)	-	-	-	-	-	-	-	-	-	(9,873,839)
7		Storage	-	-	-	-	-	-	-	-	-	-	-
8		Transmission	-	-	-	-	-	-	-	-	-	-	-
9		Distribution	-	-	-	-	-	-	-	-	-	-	-
10		Customer Accounts	-	-	-	-	-	-	-	-	-	-	-
11		Customer Service	-	-	-	-	-	-	-	-	-	-	-
12		Sales Promotion	-	-	-	-	-	-	-	-	-	-	-
13		Administration and General	(635,148)	(139,497)	-	-	-	-	(8,010)	(19,309)	(11,141)	(25,844)	(838,949)
14		Interest on Customer Deposits	-	-	-	-	-	-	-	-	-	-	-
15		Depreciation and Amortization	(29,663)	-	-	-	-	-	-	-	-	-	(29,663)
16		Taxes other than income	-	-	-	-	-	-	-	-	-	-	-
17			-	-	-	-	-	-	-	-	-	-	-
18		Total Operating Expense	(10,538,650)	(139,497)	-	-	-	-	(8,010)	(19,309)	(11,141)	(25,844)	(10,742,451)
19		Before Income Taxes	-	-	-	-	-	-	-	-	-	-	-
20			-	-	-	-	-	-	-	-	-	-	-
21		State Income Tax	729,277	10,016	1,756	671	3,034	(708,942)	575	1,386	800	1,856	37,395
22		Federal Income Tax	3,296,753	45,318	7,945	-	-	(3,207,714)	2,602	6,273	3,619	8,396	166,226
23		Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-	-	-	-
24		Total Operating Expenses	(6,512,620)	(84,163)	9,701	3,705	(3,916,656)	(4,833)	(11,650)	(6,722)	(15,592)	(10,538,830)	
25													
26		NET OPERATING INCOME	\$ 6,512,620	\$ 84,163	\$ 14,756	\$ 5,635	\$ (5,957,183)	\$ 4,833	\$ 11,650	\$ 6,722	\$ 15,592	\$ 698,788	

United Cities Gas Company  
Adjustments to Operating Income  
For the Test Year Ended September 30, 1999  
(in Dollars)

Line	No	Description	(A)	(V)	(W)	(X)	(Y)	(Z)	(AA)	(AB)	(AC)	(AD)	(AE)
1		Base Revenues		\$ (9,873,839)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9,873,839)
2		Other Revenues		33,797	-	-	-	-	-	-	-	-	33,797
3		Total Operating Revenue		(9,840,042)	-	-	-	-	-	-	-	-	(9,840,042)
4													
5		Uncollectible Accounts		-	(9,873,839)	-	-	-	-	-	-	-	-
6		Production		-	-	-	-	-	-	-	-	-	-
7		Storage		-	-	-	-	-	-	-	-	-	-
8		Transmission		-	-	-	-	-	-	-	-	-	-
9		Distribution		-	-	-	-	-	-	-	-	-	-
10		Customer Accounts		-	-	-	-	-	-	-	-	-	-
11		Customer Service		-	-	-	-	-	-	-	-	-	-
12		Sales Promotion		-	-	-	-	-	-	-	-	-	-
13		Administration and General		(838,949)	(131,641)	12,370	2,274	(1,189)	-	-	-	-	-
14		Interest on Customer Deposits		-	-	-	-	-	2,118	-	-	-	-
15		Depreciation and Amortization		(29,663)	-	-	-	-	-	-	-	-	(29,663)
16		Taxes other than income		-	-	-	-	-	-	-	-	-	-
17		Total Operating Expense		(10,742,451)	(131,641)	12,370	2,274	(1,189)	2,118	-	-	-	-
18		Before Income Taxes		(10,742,451)	(131,641)	12,370	2,274	(1,189)	2,118	(16,109)	-	-	(10,831,808)
19													
20		State Income Tax		37,395	9,452	(888)	(163)	85	(152)	1,157	(59)	(3,016)	43,811
21		Federal Income Tax		166,226	42,766	(4,019)	(739)	386	(688)	5,233	(266)	(13,645)	195,254
22		Deferred Taxes and ITCs Net		-	-	-	-	-	-	-	-	-	-
23		Total Operating Expenses		(10,538,830)	(79,423)	7,463	1,372	(718)	1,278	(9,719)	495	25,339	(10,592,743)
24													
25		NET OPERATING INCOME		\$ 698,788	\$ 79,423	\$ (7,463)	\$ (1,372)	\$ 718	\$ (1,278)	\$ 9,719	\$ (495)	\$ (25,339)	\$ 752,701



United Cities Gas Company  
Rate Base  
For the Test Year Ended September 30, 1999  
(in Dollars)

Line No	Description	Company (Sch.B-1) Pro Forma	Staff Adjustments (Sch.4.0) Pro Forma	Staff Pro Forma (Col.B+C) (D)
1	Utility Plant in Service	\$ 38,903,289	\$ (713,601)	\$ 38,189,688
2	Accumulated Depreciation	(17,863,772)	464,545	(17,399,227)
3	Net Plant	21,039,517	(249,056)	20,790,461
4				
5	Additions to Rate Base:			
6	Construction work in progress	2,163,418	(27,867)	2,135,551
7	Gas stored underground	3,340,790	(487,657)	2,853,133
8	Gas stored underground-Cushion Gas	59,965	527,351	587,316
9	Consulting and non-compete agreement	143,688	-	143,688
10	Unamortized rate case expense	185,573	(185,573)	-
11	Unamort. Monarch management audit	14,195	(14,195)	-
12	Materials and supplies	282,520	106,182	388,702
13	Working capital allowance	678,386	(145,165)	533,221
14		-	-	-
15		-	-	-
16		-	-	-
17	Deductions from Rate Base:			
18	Customer advances for construction	(18,931)	(3,629)	(22,560)
19	Customer deposits	(60,765)	(38,512)	(99,277)
20	Accumulated deferred income taxes	(2,492,808)	184,228	(2,308,580)
21	Budget billing advances	-	(437,726)	(437,726)
22		-	-	-
23		-	-	-
24		-	-	-
25		-	-	-
26		-	-	-
27	Rate Base	\$ 25,335,548	\$ (771,619)	\$ 24,563,929

United Cities Gas Company  
Adjustments to Rate Base  
For the Test Year Ended September 30, 1999  
(In Dollars)

Line	No	Description	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1		Utility Plant in Service		\$ (411,532)	\$ (302,069)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (713,601)
2		Accumulated Depreciation		162,476	302,069	-	-	-	-	-	-	-	464,545
3		Net Plant		(249,056)	-	-	-	-	-	-	-	-	(249,056)
4													
5		Additions to Rate Base:											
6		Construction work in progress		(27,867)	-	-	-	-	-	-	-	-	(27,867)
7		Gas stored underground		-	-	-	-	-	-	-	-	-	-
8		Gas stored underground-Cushion Gas		-	-	-	-	-	-	-	-	-	-
9		Consulting and non-compete agreement		-	-	-	-	-	-	-	-	-	-
10		Unamortized rate case expense		-	-	-	-	-	-	-	-	-	-
11		Unamort. Monarch management audit		-	-	-	-	-	-	-	-	-	-
12		Materials and supplies		-	-	-	-	-	-	-	-	-	-
13		Working capital allowance		-	-	-	-	-	-	-	-	-	-
14				-	-	-	-	-	-	-	-	-	-
15				-	-	-	-	-	-	-	-	-	-
16				-	-	-	-	-	-	-	-	-	-
17		Deductions from Rate Base:											
18		Customer advances for construction		-	-	-	-	-	-	-	-	-	-
19		Customer deposits		-	-	-	-	-	-	-	-	-	-
20		Accumulated deferred income taxes		184,228	-	-	-	-	-	-	-	-	184,228
21		Budget billing advances		-	-	-	-	-	-	-	-	-	-
22				-	-	-	-	-	-	-	-	-	-
23				-	-	-	-	-	-	-	-	-	-
24				-	-	-	-	-	-	-	-	-	-
25				-	-	-	-	-	-	-	-	-	-
26				-	-	-	-	-	-	-	-	-	-
27		Rate Base		\$ (92,695)	\$ -	\$ (487,657)	\$ (185,573)	\$ (14,195)	\$ 106,182	\$ (3,629)	\$ (38,512)	\$ (437,726)	\$ (1,153,805)

United Cities Gas Company  
Adjustments to Rate Base  
For the Test Year Ended September 30, 1999  
(In Dollars)

Line No	Description (A)	(L)	(M)	(N)	(O)	(P)	(M)	(R)	(S)	(T)	Subtotal (U)
1	Utility Plant in Service	(713,601)	-	-	-	-	-	-	-	-	(713,601)
2	Accumulated Depreciation	464,545	-	-	-	-	-	-	-	-	464,545
3	Net Plant	(249,056)	-	-	-	-	-	-	-	-	(249,056)
4											
5	Additions to Rate Base:										
6	Construction work in progress	(27,867)	-	-	-	-	-	-	-	-	(27,867)
7	Gas stored underground	(487,657)	-	-	-	-	-	-	-	-	(487,657)
8	Gas stored underground-Cushion Gas	-	-	527,351	-	-	-	-	-	-	527,351
9	Consulting and non-compete agreement	-	-	-	-	-	-	-	-	-	-
10	Unamortized rate case expense	(185,573)	-	-	-	-	-	-	-	-	(185,573)
11	Unamort. Monarch management audit	(14,195)	-	-	-	-	-	-	-	-	(14,195)
12	Materials and supplies	106,182	-	-	-	-	-	-	-	-	106,182
13	Working capital allowance	-	(145,165)	-	-	-	-	-	-	-	(145,165)
14											
15		-	-	-	-	-	-	-	-	-	-
16	Deductions from Rate Base:										
17	Customer advances for construction	(3,629)	-	-	-	-	-	-	-	-	(3,629)
18	Customer deposits	(38,512)	-	-	-	-	-	-	-	-	(38,512)
19	Accumulated deferred income taxes	184,228	-	-	-	-	-	-	-	-	184,228
20	Budget billing advances	(437,726)	-	-	-	-	-	-	-	-	(437,726)
21											
22		-	-	-	-	-	-	-	-	-	-
23		-	-	-	-	-	-	-	-	-	-
24		-	-	-	-	-	-	-	-	-	-
25		-	-	-	-	-	-	-	-	-	-
26		-	-	-	-	-	-	-	-	-	-
27	Rate Base	(1,153,805)	(145,165)	527,351	-	-	-	-	-	-	(771,619)